

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

**DEPARTMENT OF HEALTH AND
SOCIAL SERVICES
DIVISION OF STATE SERVICE CENTERS**

CONTROL WEAKNESSES

SPECIAL INVESTIGATION

FIELDWORK END DATE: SEPTEMBER 18, 2007

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State of Delaware
Office of Auditor of Accounts
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At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

The Office of Auditor of Accounts (AOA) received the following allegations regarding the fiscal section of the Division of State Service Centers (DSSC):

- A \$30,000 donation from Thomas Kinkade cannot be located.
- Bills are paid several months late, are miscoded, and are sometimes paid twice.
- OMS and DFMS approval levels are inappropriate.
- Foster Grandparents are not paid timely and the Foster Grandparent Grant funds were not loaded timely.

Background

DSSC is a division within the Delaware Department of Health and Social Services (DHSS). In order to accomplish its mission and objectives, DSSC administers a number of programs and services. There are 14 centers that serve as multi-service facilities in which various public and private agencies are located. DSSC includes sections for Family Support, Service Center Management, Community Services, and Volunteer Services.

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DHSS – Division of State Service Centers Special Investigation – Control Weaknesses

What We Found

During the course of our investigation, we discovered the following:

- DFMS expenditure transactions were tested for timeliness of payments, duplicate payments, penalties/interest/late fees, coding, contracts, and approvals. We were able to determine that (a) there were numerous instances in which invoices were paid late, (b) duplicate payments were made, and (c) penalties/interest/late fees were paid. See the Summary of Testing section on page 5 of this report for additional detail.

AOA identified four duplicate payments of invoices totaling \$16,387.40, and one overpayment in the amount of \$104.83.
- AOA reviewed activity in bank accounts held outside of DFMS and identified several control weaknesses, including lack of segregation of duties, lack of management review, and untimely reconciliations.
- AOA found there was a lack of written policies and procedures.

The aforementioned weaknesses increase the risk of errors and misappropriations. Staff turnover, unfilled positions, and lack of established policies and procedures contributed to the weaknesses.

What We Recommend

The Office of Auditor of Accounts recommends the following:

- DSSC should comply with the State of Delaware *Budget and Accounting Manual*.
- DSSC should develop written policies and procedures for pertinent accounting cycles (e.g. procurement/expenditure, payroll, receipts/revenues, etc.). These policies and procedures should, at a minimum, address the duties of authorization, recordkeeping, and custody to include reconciliation requirements, management/supervisor approval requirements, replenishment guidelines, and physical security requirements.
- DSSC should segregate duties, prepare reconciliations timely, and deposit funds timely.

Please read the complete report for a full list of findings/recommendations and to review DSSC's response to our findings.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

ALLEGATION AND BACKGROUND

ALLEGATION

The Office of Auditor of Accounts (AOA) received the following allegations regarding the fiscal section of the Division of State Service Centers (DSSC):

- A \$30,000 donation from Thomas Kinkade cannot be located and the donations account is used to pay for parties.
- Bills are paid several months late, are miscoded, and are sometimes paid twice.
- OMS and DFMS approval levels are inappropriate.
- Foster Grandparents are not paid timely and the Foster Grandparent Grant funds were not loaded timely.

BACKGROUND

DSSC is a division within the Delaware Department of Health and Social Services (DHSS). In order to accomplish its mission and objectives, DSSC administers a number of programs and services. There are 14 centers that serve as multi-service facilities in which various public and private agencies are located. DSSC includes sections for Family Support, Service Center Management, Community Services, and Volunteer Services.

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

The objectives of the investigation were:

1. To determine if the Thomas Kinkade donation was properly recorded.
2. For expenditure transactions, determine if DSSC adhered to the State of Delaware *Budget and Accounting Manual* and good accounting practices.
3. To determine the propriety of activity for the Foster Grandparents Grant.

SCOPE

The scope of the investigation included an analysis of financial records from July 1, 2006 through June 30, 2007 (FY07).

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

METHODOLOGY

Investigative techniques included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

The investigation consisted of the following procedures:

- Contacted Thomas Kinkade, determined if a donation was made and where the funds were deposited.
- Reviewed a sample of expenditures to (a) determine timeliness of payments, proper approvals, and proper coding (b) identify late fees/penalties/interest, and (c) identify duplicate payments.
- Reviewed activity in accounts maintained outside of the Delaware Financial Management System (DFMS) to determine propriety of activity.
- Reviewed supporting documentation to determine if the Foster Grandparents Grant funds were loaded into DFMS timely.
- Reviewed a sample of stipends paid to foster grandparents to determine timeliness and accuracy of payments.

CONCLUSIONS

Allegation	Results of Testing	Conclusion
A \$30,000 donation from Thomas Kinkade cannot be located and the donations account is used to pay for parties.	Thomas Kinkade donated a painting for an auction through the Points of Light Foundation. Based on an agreement between the Points of Light Foundation and Delaware Volunteer Service Center, 30 percent of the proceeds were to be provided to DSSC. The Points of Light Foundation provided detail of the auction proceeds and the amount provided to DSSC. AOA was able to trace the amount to DFMS. AOA selected a sample of expenditures from the donations appropriation. The expenditures selected for testing were for allowable transactions.	Unsubstantiated
Bills are paid several months late, are miscoded, and are sometimes paid twice. OMS and DFMS approval levels are inappropriate.	DFMS expenditure transactions were tested for timeliness of payments, duplicate payments, penalties/interest/late fees, coding, contracts, and approvals. AOA determined (a) there were numerous instances in which invoices were paid late, (b) duplicate payments were made, (c) penalties/interest/late fees were paid, (d) coding was proper, (e) contracts supporting total payments were on file, and (f) there were several levels of approvals. See the Summary of Testing section on page 5 of this report for additional detail. AOA reviewed activity in bank accounts held outside of DFMS and identified several control weaknesses, including lack of segregation of duties, lack of management review, and untimely reconciliations. AOA found there was a lack of written policies and procedures. Finally, AOA determined there was significant turnover in the fiscal section as well as numerous unfilled positions throughout the year, both of which possibly contributed to the aforementioned issues.	Partially Substantiated
Foster Grandparents are not paid timely and the Foster Grandparent Grant funds were not loaded timely.	A sample of stipend payments was selected for testing. Foster grandparents are paid bi-weekly. AOA found one instance in which a foster grandparent was paid late. This was directly attributable to the late submission of a timesheet by the foster grandparent, which did not allow for timely payment. This portion of the allegation is unsubstantiated. The federal grant award for the Foster Grandparents Grant was available on January 1, 2007; however, the grant was not loaded into DFMS until March 22, 2007. This portion of the allegation is substantiated. Based on the aforementioned testing, the delay in loading the federal funds did not result in delayed payments to foster grandparents.	Partially Substantiated

SUMMARY OF TESTING

During FY07, DSSC processed non-payroll, expenditure transactions through DFMS with 15,651 lines of coding, for a total of \$22,101,545.80. AOA sampled 2,421 lines of coding for a total of \$19,580,641.39. Lines of coding usually represented payment of individual invoices; however, some lines of coding included payment for multiple invoices. Out of the sample, 736 lines of coding totaling \$1,950,833.50 included late payments of invoices.

During FY07, DSSC coded \$186.20 to late fees/penalties/interest. AOA identified an additional \$79.37 of late fees that were coded to electricity. AOA determined that although numerous invoices indicated late fees/penalties/interest, DSSC usually did not pay the fees and the vendor subsequently removed the fees from the accounts.

AOA identified four duplicate payments of invoices totaling \$16,387.40. Following is the status of the duplicate payments:

- \$10,805.34 was applied to subsequent bills.
- For \$1,366, the vendor returned the original, unprocessed check to DSSC. DSSC has had possession of the check since approximately the end of July 2007, but as of September 18, 2007 has taken no action to void the transaction in DFMS.
- DSSC is currently researching overpayment in the amount of \$4,216.06 to one vendor. The invoice was paid on April 3, 2007, and duplicate payment was made on May 29, 2007.

AOA identified one overpayment in the amount of \$104.83. The overpayment was applied to a subsequent bill.

FINDINGS AND RECOMMENDATIONS

Finding #1 – Late Payments, Duplicate Payments, and Late Fees/Penalties/Interest

DSSC was late in paying numerous invoices, incurred late fees/penalties/interest, and duplicated payment of invoices.

The State of Delaware *Budget and Accounting Manual* states, “The state shall make every effort to issue payments to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services; if received after the invoice or bill. The agency must determine what constitutes “Received”. It is recommended that agencies date and time stamp all incoming invoices or bills. The Division of Accounting must receive payment vouchers with at least five (5) working days remaining in the thirty-day (30) period. This assumes there are no errors or omissions on the documents. The Division of Accounting receives a document when it is dated and time stamped by the Division of Accounting.”

Untimely payment of invoices contributed to late fees/penalties/interest and duplication of payments. In addition, a hardship is created when charitable organizations and non-profit entities do not receive payments in a timely manner. This impedes the organizations’ ability to provide services and meet goals and objectives.

Late payments of invoices are attributable to staff turnover, unfilled positions, oversight, and delays in receiving approved invoices from the various service centers located throughout the State.

Recommendation

DSSC should (a) comply with the State of Delaware *Budget and Accounting Manual* and (b) develop written policies and procedures for the procurement/expenditure cycle. Policies and procedures should address key controls such as authorization, segregation of duties, management review, reconciliation, and system access as well as be sufficiently detailed to provide:

- An understanding of DSSC’s objectives;
- A basis for training new personnel;
- A means of communicating common information;
- A source of information about accounting controls, and
- A source of information that will aid in providing continuity in the event experienced personnel leave.

Auditee Response

DSSC concurs that some of the issues stated above are attributable to a large amount of staff turnover. Now that the majority of the Fiscal Office positions have been filled, all DSSC fiscal staff have attended the Budget and Accounting Training class. Fiscal staff also have attended additional training in the area of Excel and other financial training provided by the Department and the State Office of Management and Budget (OMB) that has been identified as essential to performing their job responsibilities.

FINDINGS AND RECOMMENDATIONS

The Fiscal Office has initiated a process which will communicate common information. This process will:

- Assign a unique tracking number to invoices presented for payment bearing no invoice number- as a safeguard against duplicate payments;
- Document when an invoice is presented to the fiscal unit for payment processing;
- Document which program manager approved the invoice for payment;
- Ensure timely payment processed per the *Budget and Accounting Manual*; and
- Enable quick answers to inquiries regarding invoice payment status.

A full fiscal unit staff meeting was held in October, 2007, to review the following newly established payment processing policies/procedures. All staff were included to ensure uniformity with instructions and expectations, as well as making sure all staff members received simultaneously the answers to questions. Full fiscal unit meetings will be held regularly to ensure operational continuity and to further support compliance with accurate and prompt processing.

In addition, the two fiscal unit supervisors began in October, 2007, to have separate meetings with their respective staff regarding their specific operational issues. Relevant issues from their group discussions will be reviewed at the full fiscal unit meetings.

A management review procedure has been established for the manual checking accounts handled by the Family Support Services (FSS) program managers. The procedure includes sign-off approval by the FSS Program Administrator, who also will ensure the resolution of any discrepancy.

Finding #2 – Bank Account Activity

DSSC maintains 11 bank accounts outside of DFMS. Activity is recorded through Quicken and manual check registers. The following weaknesses were identified:

- Lack of segregation of duties – The functions of check writing, check signing, recording of activity in Quicken or the manual check registers, and reconciliation were often performed by one person.
- Untimely reconciliations – Bank reconciliations for 4 accounts were not timely.
 - EAS Account – Reconciliations for July 2006 through May 2007 activity were prepared during June and July 2007.
 - Kinship Account – Reconciliations for July 2006 through May 2007 were prepared on June 28, 2007.
 - Petty Cash Account – Reconciliations for August 2006 through October 2006 were prepared on November 29 and November 30 of 2006. Reconciliations for November 2006 through June 2007 were prepared August 1, 2007.
 - Utility Account – Reconciliations for July 2006 through May 2007 were prepared during April, May, and July of 2007. (Note: The April 2007 reconciliation was prepared timely.)
- Lack of management review – There was no evidence of review of the reconciliations.

FINDINGS AND RECOMMENDATIONS

- Untimely deposits – 7 of 16 deposits selected for testing were not made timely. One of the deposits did not contain adequate supporting documentation.
- One check in the EAS account was pre-signed.
- Numerous old, outstanding items are carried on the reconciliations.

Duties should be segregated among different people to reduce the risk of error or inappropriate action. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. When these functions cannot be separated, due to small departmental size, a detailed supervisory review of related activities is required as a mitigating control activity. The State of Delaware *Budget and Accounting Manual*, Chapter II requires that the responsibility for a transaction or activity be divided among different parties so that no one employee has complete control over the processing of transactions. Good business practices and sound internal control for segregation of duties reduce the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties.

A reconciliation is a comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action, when necessary, to resolve differences. Differences should be identified, investigated, explained, and corrective action taken as necessary. Reconciliations should be documented and approved by management. Effective internal control procedures require that reconciliations be performed on a timely basis to facilitate the prompt detection and correction of unrecorded or improperly recorded transactions.

The State of Delaware *Budget and Accounting Manual*, Chapter VIII states, "agencies . . . shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

The aforementioned weaknesses increase the risk of errors and misappropriations. Staff turnover, unfilled positions, and lack of established policies and procedures contributed to the weaknesses. Per DSSC staff, the reconciliation control was ceased during the year due to a lack of segregation of duties.

Recommendation

DSSC should:

- Properly segregate duties. If duties cannot be properly segregated (e.g. due to staff shortages), DSSC should incorporate mitigating controls, such as management review.
- Timely prepare reconciliations. Staff shortages are not a valid reason for ceasing the function of reconciliations. For example, staff at the various service centers can be tasked with preparing reconciliations of the other service centers.
- Reconciliations should be reviewed for accuracy. Evidence of timely reviews should be documented via sign-offs and dates.
- Comply with the State of Delaware *Budget and Accounting Manual* and make deposits timely.
- Require that under no circumstances should checks be pre-signed.
- Research and resolve reconciling items.

FINDINGS AND RECOMMENDATIONS

Auditee Response

Below is a listing of some of the procedures and safeguards which have been established during FY07 for the Client Assistance Payment System (CAPS):

- The DSSC Fiscal Office established segregation of duties for checks issued via the Client Assistance Payment System (CAPS) to ensure that the person issuing checks was not involved with payment adjustments, receipt of return checks, and deposit or bank reconciliations without the approval of the immediate supervisor.
- The DSSC Fiscal Office established a CAPS returned-check log procedure to record checks issued and returned to the division for various reasons.
- The Fiscal Office ensured that all DSSC checks issued for manual signature by authorized signers had supporting documentation attached for review.
- A floor safe was purchased to ensure that the check stock was secured at all times.

By the end of the first quarter of FY08, the following procedures and safeguards were in place:

- The Fiscal Office staff and the Department's Information Resource Management Unit are conducting the testing phase of transitioning to a completely automated process for handling the required bank reconciliations.
- The bank reconciliation function is now performed by a fiscal unit person independent from the fiscal unit staff involved with the check issuance process for the CAPS.
- To further support timely reconciliation of bank accounts, an excel spreadsheet was developed with more monthly detailed information for fiscal unit staff to use.
- A Cash Receipt Procedure was established to ensure that the checks received for deposit are timely deposited and duties are appropriately segregated in compliance with the State of Delaware *Budget and Accounting Manual*.
- The Fiscal Office developed a check log/spreadsheet for all staff to use when submitting funds to be deposited. This spreadsheet allows for all program managers to retain documentation of deposit information submitted to the fiscal unit. This Spreadsheet was shared with all division program managers, accompanied by an email attachment of a summary of the State of Delaware *Budget and Accounting Manual's* section regarding the cash receipt policy.
- A management review procedure was implemented in October, 2007, for approving bank reconciliations for the manual accounts used by FSS Center Administrators for crisis benefits and services in the field offices.

Finding #3 – Policies and Procedures

DSSC does not have written policies and procedures.

The State of Delaware *Budget and Accounting Manual (Manual)*, Chapter I, states, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control."

FINDINGS AND RECOMMENDATIONS

An effective system of internal controls includes:

- Ensuring that all transactions are clearly documented, and the documentation is available for examination.
- Dividing the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions.

Chapter II of the *Manual* states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

Managers are responsible for establishing and maintaining internal controls through written procedures. Written procedures are beneficial for the training of current and new employees and are a valuable resource in the event an employee leaves DSSC. The procedures should include sufficient information to permit an individual who is unfamiliar with the operations to perform the necessary activities.

Documentation is an important aspect of control and communication. It generally provides (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

The lack of written procedures increases the risk of loss of funds, theft of assets, and disruption of operations. The lack of policies and procedures existed prior to the hire of the current fiscal administrator during 2006.

Recommendation

DSSC should develop written policies and procedures for pertinent accounting cycles (e.g. procurement/expenditure, payroll, receipts/revenues, etc.). These policies and procedures should, at a minimum, address the duties of authorization, recordkeeping, and custody to include reconciliation requirements, management/supervisor approval requirements, replenishment guidelines, and physical security requirements.

Auditee Response

As mentioned in the Auditee Response for Findings #1, and #2, several policies and procedures were written during FY07 and several others have been implemented during the first four months of FY08. By the end of FY08, a comprehensive fiscal unit policy manual will be completed, as will a procedural manual for core division functions which involve other units along with fiscal (e.g., contracts and grants processing).

FINDINGS AND RECOMMENDATIONS

Finding #4 – Federal Grants

The federal grant award for the Foster Grandparents Grant was available on January 1, 2007; however, the grant was not loaded into DFMS until March 22, 2007.

Upon approval of the Delaware State Clearinghouse Committee and grant award notification from the federal agency, state organizations must submit a Federal Aid Master (FM) document to OMB. The FM document contains pertinent data on the grant and sub-grant, and authorizes the establishment of the appropriation for deposit of funds. Grant funds should be loaded in a timely manner.

Recommendation

DSSC prepare the appropriate documents to ensure timely loading and availability of grant funds.

Auditee Response

As stated in the audit report, the delay in loading the federal funds did not result in delayed payments to foster grandparents. However the DSSC Fiscal Office has begun establishing procedures and timelines to ensure that the federal grants are loaded timely.

These procedures are now in place and the process will be documented by January 1, 2008.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Ms. Valencia Beaty, Director of Management Services, Department of Health and Social Services

Ms. Melody Lasana, Controller, Division of Management Services, Department of Health and Social Services

Ms. Gloria Upshur, Director, Division of State Service Centers, Department of Health and Social Services